

HOUSING MARKET OUTLOOK

Saskatoon CMA



Canada Mortgage and Housing Corporation

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New Home Market

Single starts reach historical high

Single-detached starts will finish the year near 1,600 units in 2007, backing off slightly to 1,500 starts in 2008. (see Figure 1) This year's housing starts represent a historical high not surpassed since 1979 when 1,763 single-detached starts were recorded. Rapid job growth, wage gains, and surging migration are the major contributing factors to the rise in single housing starts. A scarcity of

resale listings is also contributing to the robust level of single-detached demand.

Single-detached absorptions have kept up with the vigorous pace of single starts. In the fall, absorptions were running 29 per cent above the rate of absorptions at this time in 2006. Average absorptions will reach in excess of 70 units monthly, the highest rate of absorptions on record.

Figure 1

Total Housing Starts



Source: CMHC, CMHC forecast

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The supply of single-detached homes (defined as units under construction and units completed and unoccupied) is sufficient to last almost 13 months, compared to between six and seven months at this time last year. This apparent over-supply is due to the large number of units under construction, though the majority are already sold. As a result, this should decline as single units are completed and occupied later this year and early 2008.

The elevated level of starts in 2007 and scarcity of skilled trades people have contributed to an extraordinary number of units under construction. Recently, close to 1,000 single-detached units were recorded at various stages of construction. This is the highest monthly level of construction activity recorded since 1983.

Average price of new housing units up more than 15 per cent annually

The average selling price in 2007 for new singles will reach \$275,000 and \$300,000 in 2008. Rising labour costs combined with higher land development costs will be the primary contributors to the upswing in average price. Lengthy building periods due to labour shortages will continue to plague the industry and further contribute to price increases.

Rapid cost escalation is causing a shift in the share of sales occurring above \$200,000, which is skewing the average price upwards. Price ranges above \$200,000 all saw an increase in the number of absorp-

tions while lower price ranges saw declines. Absorptions in the \$250,000 to \$299,999 range, for example, have captured more than 20 per cent of the total absorptions in 2007, up from 16 per cent in 2006.

Statistics Canada's New House Price Index (NHPI), where detailed specifications pertaining to each house remain the same between two consecutive periods, will increase by 30 per cent in 2007, moderating to 12 per cent in 2008.

Condominium apartments for empty-nesters dominate multiple activity

Our forecast calls for 850 multiple starts (including semi-detached, row, and apartment units) in 2007, falling to 600 units in 2008 (see Figure 1). This represents a 58 per cent increase in 2007 compared to 2006 and a 29 per cent decline in 2008 compared to the 2007 forecast.

In 2007, the apartment housing form will dominate multiple starts and will surpass the number of units started in 2006. Row housing, after staging a comeback in 2006, will greatly exceed the volumes recorded in that year and semi-detached units will also top the 2006 performance, although by a lesser amount than that seen for the other multiple housing forms. Most of these multiples will be condominium tenure designed for the empty-nesters and seniors market, as they offer such features as elevators and underground parking.

In 2007, 130 multiple rental units will be started representing the highest number of rental starts since 2003. Some of these rental starts are being built as affordable housing units under the Province's Centenary Housing program which is co-funded by the Federal government and the Province of Saskatchewan. Others are being built as a new phase of existing senior's projects. These particular units do not represent an increase in the supply of private sector rental housing as they are not available to the general market.

Supply of multiple units highest since 1985

Based on the most current data, the supply of multiple units stands at close to the 900 unit mark, which is approximately double the amount recorded last year at this time. This is the highest level of supply recorded since October 1985. By the end of 2007, we forecast that the average monthly supply will be in excess of 700 multi units, 42 per cent above the 2006 average monthly supply. As with the single-family market, completions have been slow due to the lack of skilled construction workers contributing to the escalation in supply.

Most of these units are in the construction stage and the bulk of these (about 475 units at the time of writing) are apartment style. More than 60 of these units are being built as affordable housing or are part of an existing senior's project and will be occupied quickly upon completion. The rest of these are condominium units under construction. These condominium apartment units should be absorbed quickly upon

completion as the majority are presold.

In the case of row units, almost all have been started since the last quarter of 2006. As they were started so recently, most of these units are in the early stages of construction. Signage at many projects indicates that they are sold out, so we anticipate most units will be absorbed swiftly upon completion thus reducing supply by early 2008.

Price of apartment condominiums to escalate in 2007 and 2008

At the close of 2006, over 30 per cent of the apartment condominium absorptions that took place in that year were in the \$140,000 to \$159,999 price range and 29 per cent were absorbed at selling prices in the \$160,000 to \$179,999 range. The average price for new apartment condominiums was \$158,059.

Based on more recent year-to-date data, there has been considerable escalation in the average price of these apartment style units reaching in excess of \$233,000. Demand has been strong and pricier projects are entering the absorption stage. Production cost pressures, detailed earlier in this report, will add further to the average new condominium price.

Demand for serviced lots 'exceptional'

Major land developers have told us that demand for serviced residential

lots has been exceptionally strong so far this year and continues to be very strong going into the fall season. While servicing plans were accelerated by all land developers in Saskatoon, demand exceeded the development industry's capacity for servicing. Development plans for 2008 are expected to continue at an accelerated level in order to meet expected strong demand throughout 2008.

Resale Market

Resale market sales balloon in 2007 and fall back in 2008

Listings will define market

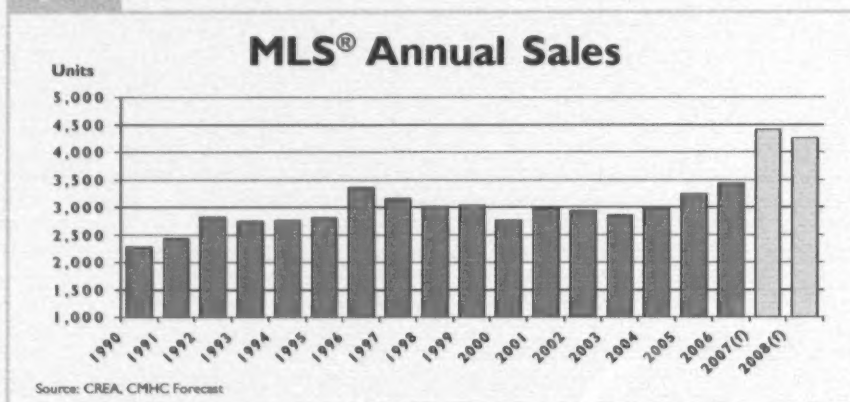
Saskatoon's resale market will see a 28 per cent increase in sales in 2007, making that year the highest number of sales on record. Although sales will moderate somewhat to 4,250 units in 2008, this will still be a historically high level of resale transactions in Saskatoon. (See Figure 2)

As seen in the new home market, demand for resale housing has been supported by in-migration, rising weekly earnings, and other favourable labour market conditions. Also contributing to the elevated level of sales has been demand from investors seeking to take advantage of the potential for short term gains. Solid equity growth from the past few years is providing owners an opportunity to refinance and upgrade their homes.

Despite a continued rise in active listings, sales will fall off somewhat in 2008 due to rapidly escalating prices and weaker speculative demand. Speculative investment dollars flowing from neighbouring provinces is already beginning to slow.

In the last few months, listings have started to increase as empty-nesters and seniors move into newly constructed condominiums and others take possession of their new single-detached units. Listings are also rising as speculators seek to dispose of their investments. According to fall data, the inventory of active listings has risen by almost 25 per cent on a month-to-month basis. The season-

Figure 2



ally adjusted trend is up six per cent. The trend for new listings is also up, suggesting the rise in active listings will continue.

Although the sales-to-active listing ratio is showing some signs of easing, this statistic remains high at the time of writing this report and remains firmly in the sellers' market zone.

The local real estate association reports the fall year-to-date average number of days a single-detached property is listed prior to sale has declined to only 19 days compared to the year-to-date figure of 32 days at this time in 2006. With more listings heading into 2008 and cooling demand, expect homes to take longer to sell.

Average resale price increases 45 per cent in 2007

Record demand and listings shortages leading to bidding wars and sales above list price have resulted in the average price increasing by 45 per cent in 2007 to \$232,500. This will far surpass the previous record increase of 11.5 per cent set in 1997. The forecasted increase in 2008 of 14 per cent will be modest by comparison, but will still be among the highest gains on record. Higher listings and buyer resistance to higher prices will result in weaker price gains in 2008.

Rental Market

Average vacancy rate falls in 2007 and 2008

CMHC forecasts an average vacancy rate of 2.5 per cent in the October 2007 survey, declining further in 2008 to 2.2 per cent. The average vacancy rate will vary widely across the city, with some areas seeing an average rate of less than one per cent.

CMHC has identified a number of reasons for the decline in average vacancy rate from the 3.2 per cent recorded in the October 2006 survey. The most important factors are expanding employment and wages which have led to increased in-migration and rental household formation. Some projects that were suffering from deferred maintenance have also been rehabilitated, increasing their appeal and leading to declines in turnover and vacancy. As mentioned, escalating homeownership costs will also prevent some renters from making the move toward a home purchase.

Lack of housing for students and condominium conversions have become major issues in the city to such an extent that the City of Saskatoon has encouraged homeowners to provide legal suites in their homes. The City advises that the proportion of condominium conversions to the rental stock is minimal and some of the buyers of converted units are investors who return the unit to the rental market. Furthermore, developers advise that some of the newly-built, lower-priced condominium units will also be purchased by investors who intend to make them into rental units. Such indirect additions will prevent the vacancy rate from slipping below forecast levels.

Robust rent increases in 2007 and 2008

Our forecast calls for an increase of \$32 in the two-bedroom monthly average rent in 2007 and a more modest increase of \$25 bringing the average rent for a two bedroom suite to \$665 in 2008. These forecasts are for increases in average rents only and actual rental increases will vary widely across the city. Historically, owners implement cosmetic and rehabilitation improvements accompanied by rent increases.

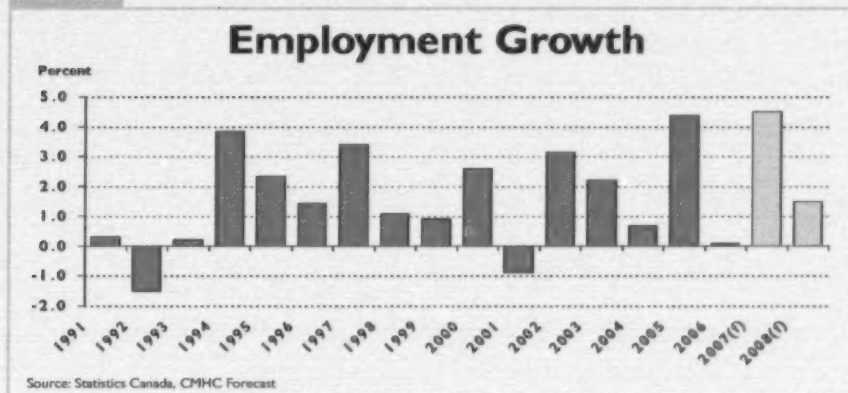
Economic Outlook

Employment growth driving housing demand

CMHC is forecasting vigorous growth in average employment this year with 7,200 additional employed. Saskatoon will far out-distance all other centres in Saskatchewan in terms of job gains. In 2008, employment will moderate to a still outstanding growth of 2,000 additional jobs although we may expect the 2007 job increase to continue to affect housing demand in future years. (See Figure 3) The unemployment rate will slip to 4.2 per cent in 2007 and 4.0 in 2008.

Construction projects at the University of Saskatchewan, retail expansion and municipal infrastructure projects will boost construction employment considerably, though the strongest job growth will be centred in the service sector. Employment in the retail trade sector and educational service sectors have been the top gainers in 2007.

Figure 3



Turning to employment growth by age groups, the 15 to 24 age range has seen the most increase and, as expected for this age group, employment gains in part-time positions dominate. This suggests that job gains will have more impact on rental and first-time home buyers rather than the move-up market.

On the other hand, average weekly earnings have been rising rapidly, especially in higher paid industries such as construction, professional, scientific and technical services and

health care to name a few. These positive gains will have beneficial impacts on both the resale and new home ownership markets.

Net migration will see a substantial burst in 2007, as migrants are attracted to the multitude of job opportunities and relatively lower cost of living. Net migration will moderate in 2008 but remain firmly in positive territory in keeping with increasing in-migration and lower out-migration numbers for the province as a whole.

Mortgage Rate Outlook

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

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Forecast Summary Saskatoon CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	2,999	3,246	3,430	4,400	28.3	4,250	-3.4
MLS® New Listings	4,695	4,908	4,637	4,900	5.7	4,900	0.0
MLS® Average Price (\$)	132,549	144,787	160,577	225,000	40.1	250,000	11.1
New Home Market							
Starts:							
Single-Detached	753	751	959	1,600	66.8	1,500	-6.3
Multiples	825	311	537	850	58.3	600	-29.4
Starts - Total	1,578	1,062	1,496	2,450	63.8	2,100	-14.3
Average Price (\$):							
Single-Detached	199,877	213,464	239,365	275,000	14.9	300,000	9.1
Median Price (\$):							
Single-Detached	187,435	198,177	219,687	-	-	-	-
New Housing Price Index (% chg.)	5.4	5.6	9.1	30.0	-	12.0	-
Rental Market							
October Vacancy Rate (%)	6.3	4.6	3.2	2.5	-	2.2	-
Two-bedroom Average Rent (October) (\$)	580	584	608	640	5.3	665	3.9
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	-	7.19	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	-	7.41	-
Annual Employment Level	121,100	126,400	128,000	133,700	4.5	135,700	1.5
Employment Growth (%)	0.7	4.4	1.3	4.5	-	1.5	-
Unemployment rate (%)	6.2	5.0	4.4	4.2	-	4.0	-
Net Migration	459	-378	-286	1,300	-	1,000	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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